Discounters Driving Germany's Grocery Sector

By Karina Ramos and Christel Wagner

Competition from domestic and other EU (European Union) suppliers is formidable, but U.S. food and agricultural exports to Germany increased from $869.4 million in fiscal 2002 up to more than $1 billion in 2003. U.S. agricultural exports to Germany made up 17 percent of all our exports to EU nations that year.

However, according to official German import data, which includes imports from the United States transshipped through other countries into Germany, German imports of U.S. food and agricultural products totaled $1.9 billion in 2003.

Bulk commodities made up half these exports, though U.S. consumer-oriented agricultural products—little more than a third of the total—are expected to be the future growth sector.

As the largest consumer market in Europe, Germany's huge retail food segment is a desirable marketplace for many exporters. Organized food retailers—supermarkets, hypermarkets, discount stores and small traditional retail stores—sold $114 billion worth of food and beverage products in Germany in calendar 2002.

These retail statistics do not include sales from bakeries, butcher shops, farmers markets, farms, wineries, drugstores, gas stations and kiosks, which added an estimated $52 billion the same year.

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Competition Stiff, In and Out of EU

Germany imports about $45 billion worth of agricultural products a year, of which two-thirds comes from other EU countries. Major competitors for U.S. suppliers in this market include the Netherlands, France, Italy and Spain.

The increased preferential access to the EU market of the 10 new EU members provides even more competition for U.S. products.

The United States is the second largest non-EU supplier of consumer-oriented products to Germany, following Turkey. Significant competition also comes from other non-EU countries in Eastern Europe, North Africa, Latin America, the Caribbean, and from South Africa and Israel. Imports from these countries consist mostly of meats, poultry, bananas, pistachios, processed fruits and vegetables.

Entry Strategies for U.S. Suppliers

Regardless of the sector, U.S. exporters must rely on local representation and personal contact for product introduction and promotion. Specialized importers normally handle the import and marketing of food and beverages sold in German stores, and they frequently distribute nationwide.

A local representative should provide market information, guidance on business practices and trade-related laws, sales contact with existing and potential buyers, as well as expertise in market development and the distribution system.

Each of Germany's leading retail groups has a different business structure and purchasing and distribution system. Leading retailers can have multiple chains, varying from hypermarkets to discount and small neighborhood stores, or even beverage and deli outlets.

Few retailers import directly. For a retailer to consider buying from a U.S. supplier, something must pique the interest—uniqueness of a product, or a significant quality, price or financial promotional support available only through direct importing.

Consolidation Marks Retail Sector

As in many countries, food and beverage retailing in Germany is increasingly dominated by a handful of large retailers. In 2000, the top five retailers accounted for 62.5 percent of sales. By 2010, this share is expected to have reached 75 percent.

Due to growth in the discount segment, the majority of traditional retailers like SPAR, REWE and Tengelmann are developing their own discount store formats. Many retailers have also begun using private labels, to reduce prices for consumers while maintaining quality. The top three discount retailers are Aldi, Lidl (Schwarz Gruppe) and Penny (REWE) with 49 percent, 18 percent and 11 percent of the German discount market, respectively.

Discounters Grow at Expense of Traditional Shops

The discount segment is the most dynamic and has prospered as consumers have become more price-conscious. Discount stores, which tend to be small in size, have also benefited from German laws favoring small retailers.

Currently, sales from discount stores comprise 37 percent of the retail food market, up from 24.3 percent a decade ago. During the past 10 years, the number of discount stores has grown from 9,300 to 13,400. Discount stores are increasingly widening the variety of products they carry to include fresh baked bread, fresh meats, a wider selection of seafood, and fresh fruits and vegetables.

Best Prospects

Germany's 82.4 million inhabitants have one of the highest income levels in the world. U.S. foods are popular, particularly with an affluent younger generation. U.S. products with a proven track record include:

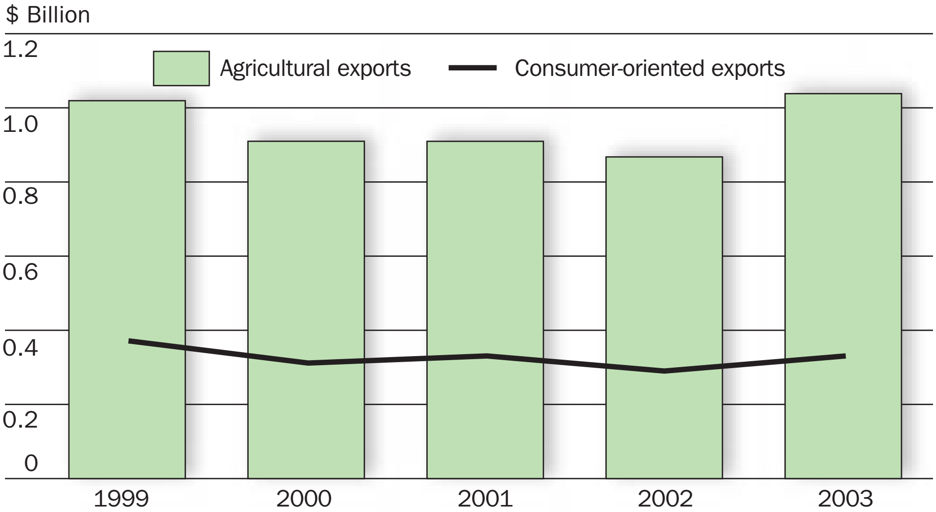
- Snack foods
- Fresh fruits and vegetables
- Dried fruits and nuts
- Organic products
- Alcoholic beverages
- Fitness foods and beverages
- Frozen fish
- Pet foods

Despite efforts by the German government to protect small retailers, their market share continues to drop. In 2002, small traditional shops comprised less than 13 percent of sales in the food retail market.

At the same time, the concentration of giant retail organizations in Germany, with their varying formats, has increased

In Fiscal 2003, U.S. Agricultural Exports to Germany Jumped 20 Percent From 2002 to About the Level of 1999

Consumer-oriented exports climbed 14 percent in 2003 from the previous year.



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dramatically (68 percent of sales in 2002), though they lag behind some other EU countries in market share.

With relatively flat retail sales, Germany's retailers have sought to expand their sales beyond Germany. Many generate a significant portion of their income outside the country and are increasingly investing in the new accession countries and Russia.

Convenience Still Important

Besides quality and price, German consumer spending patterns are also influenced by convenience. Despite their higher prices, small neighborhood stores are still popular stops, particularly if they are open for longer hours. However, the new laws that allow all retail food stores to stay open until 8 p.m. on weeknights and 6 p.m. on Saturdays might impact convenience sales.

Currently, there are about 48,000 snack stands and kiosks in Germany, which make up about half the sales in the convenience store category. Convenience stores in gas stations make up most of the remainder in sales turnover, with considerably fewer outlets.

Know Your Deutsch Retail Formats

Each of Germany's leading retail groups has a different business structure and purchasing and distribution system. Organized retail stores (excluding convenience formats) tend to follow these profiles:

- **Hypermarkets,** with 25 percent of market share. Large retail stores between 1,500 and 5,000 square meters of sales space, with an emphasis on self-service; significant amount of nonfood products
- **Supermarkets,** with 25 percent of market share. Self-service food stores between 400-800 square meters; nonfood items make up less than 25 percent of sales
- **Discounters,** with 37 percent of market share. No-frills, self-service food stores that concentrate on a limited range of products with high turnover rate; low prices are main attraction
- **Traditional shops,** with 13 percent of market share. Small independent food stores that concentrate on a limited range of products, and may emphasize quality, including specialty or gourmet products or convenience products with high turnover

Popular items at these outlets include fruit juices and drinks, soft drinks, beer, wines, confectionery, snacks and convenience items. Prices are usually 30-70 percent higher than in conventional outlets. These outlets usually source their imports from specialized importers.

Alternatives to Large Retailers

For independent retailers, buying associations and groups play an important role. The largest—Markant—had a sales turnover of $47.5 billion in 2002. Comprised of more than 100 members, the company provides wholesale purchasing and marketing for its products and services for medium-sized merchants throughout Germany and Europe.

Home food delivery, mail-order and Internet sales also offer consumers choices beyond the traditional shopping formats. Internet sales were estimated at $8 billion in 2002. Home delivery has long been an option, especially for frozen products.

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